



**Director of
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ISRAEL-LEBANON: Growing Phalange Involvement

(Information as of 0030 EDT)

There were only scattered exchanges of fire yesterday between Israeli and PLO or Syrian forces in the Beirut area but there are signs that Phalange military involvement with the Israelis is growing. []

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Phalange militiamen reportedly also were involved in probes of Syrian positions along the Beirut-Damascus road. Phalangists also fought with Palestinians close to Israeli lines in southern Beirut. The Lebanese security forces said the Israelis also were involved, but Israel denied this. []

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Comment: It is not clear why Phalange militiamen are becoming more involved in the fighting. The Israelis and the Phalange previously had been careful not to betray signs of overt cooperation, and Phalange leader Bashir Jumayyil seemed persuaded that it would be prudent to avoid any direct involvement. Active participation by Phalangists in Israeli military operations will further jeopardize President Sarkis's chances of inducing Muslims to accept a role for Jumayyil in a government of national unity and will almost certainly draw leftist and Muslim militias into the fighting. []

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Political Developments in Lebanon

Sarkis's National Salvation Committee remains stalled by the refusal of Druze leader Walid Junblat to participate. Junblat yesterday moved to dissociate himself further from the government by asking his two Druze allies on the cabinet to resign. [REDACTED]

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PLO chief Arafat and other PLO leaders met yesterday with Lebanese Prime Minister Wazzan. The results of the meeting are not yet known. [REDACTED]

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Comment: Most Muslim leaders appear to be waiting to see if the Israelis are going to attack West Beirut before they agree to cooperate with Sarkis's efforts to establish a stronger government and bring the PLO under control of the Lebanese Army. They also continue to be wary of Jumayyil's intentions. If Phalange involvement in the fighting grows, they will become increasingly concerned that Jumayyil will order his militia into West Beirut. [REDACTED]

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UK-ARGENTINA: No Formal Agreement on End to Conflict

//The Galtieri regime remains reluctant to agree to a formal end to hostilities to deflect growing domestic opposition and to keep open its options on its Falkland claims. The Thatcher government has warned that it will hold at least some prisoners until Argentina recants and repeated that there is no possibility of negotiating with Buenos Aires about sovereignty over the islands.//

The Argentine junta apparently still has not accepted British terms for a complete cessation of hostilities in the South Atlantic,

Comment: *//The delay in Buenos Aires's response to the British probably reflects continuing debate among Argentine leaders over their future course of action as well as their apprehension that a formal announcement of Argentine surrender might cause additional large-scale protests. Some military leaders may be arguing for a continuation of low-level military activity to raise the cost of long-term British defense efforts.//*

//Even if President Galtieri rejects the option, of continued hostilities, the manner in which the military defeat is presented to the people will influence his chances of remaining in office.

//There is widespread support for Argentine sovereignty in the UN, and Argentina will try to exploit it to maintain international pressure on the British to negotiate the sovereignty issue. Among other things, the Argentines will argue that Resolution 502, which calls for negotiations, is still in force.//

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Attempted Cabinet Resignations

//Foreign Minister Costa Mendez and Interior Minister Saint Jean submitted their resignations yesterday to facilitate policy changes Galtieri had promised. Later, the entire cabinet reportedly offered to quit, but Galtieri rejected the resignations.//

Comment: //Sacrificing Saint Jean and particularly Costa Mendez could give Galtieri a reprieve. The same effect could be better achieved, however, by removing military officers closely associated with the invasion, including junta member Admiral Anaya or Falklands troop commander General Menendez. Galtieri may believe that he needs the experienced Costa Mendez to argue the Argentine case in diplomatic forums, on which Buenos Aires is now likely to focus.//

Argentine Prisoners

//The British warned yesterday that they may delay the repatriation of at least some of the 15,000 Argentine prisoners they captured until Buenos Aires declares an end to all hostilities. Task force commander Woodward said that, without a formal cessation of hostilities, defense of the task force and its supply lines would take priority over caring for the prisoners. British officials stated that feeding the prisoners will soon become difficult but that providing shelter is the most urgent problem.//

Comment: //Although the British are genuinely concerned about the prisoners' health, they also hope that the issue will add to pressure on Argentine leaders to agree to a total cessation of hostilities.//

Postmortem in London

//Prime Minister Thatcher stated in Parliament on Tuesday that she will move quickly to establish an inquiry into the origins of the crisis. Foreign Secretary Pym yesterday reiterated that London has no intention of negotiating the issue of sovereignty with Buenos Aires.//

Comment: //The inquiry probably will consist of a small committee appointed by leaders of the major political parties, but there also is speculation that Thatcher is considering a committee made up of former Tory Prime

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Ministers Home and Heath and former Labor Prime Ministers Wilson and Callaghan. Thatcher is likely to succeed in having the Defense and Foreign Ministers bear the brunt of criticism and escape serious damage to her position. If revelations prove too embarrassing, however, Defense Secretary Nott might have to be replaced.//

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//An inquiry making use of former Prime Ministers or other senior officials would have the advantage of clearance for sensitive information and would carry more weight with public opinion. Senior officials of past governments are also less likely to criticize policies they had some role in formulating.//

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British Defense Review

Press reports state that British officials said yesterday the UK is likely to increase defense spending in the aftermath of the conflict and may drop plans to scrap or sell some warships. Nott reportedly will recommend an increase in the next defense budget of 4 or 5 percent after inflation.

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EC-US: Reaction to Steel Ruling

The US accusation that seven EC countries are unfairly subsidizing steel exports is complicating efforts to revitalize the depressed steel industry in Western Europe.

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//The EC has reacted angrily to the recent US Department of Commerce ruling that several EC governments are indirectly subsidizing steel exports to the US. The EC Commission has already claimed that the ruling violates the US pledge made at the recent economic summit to promote free trade. West German officials have warned that they will have difficulty fending off pressure from those EC countries that have been looking for an excuse to restrict US agricultural imports.//

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Moreover, the Italians have complained that the ruling will result in the loss of an important export market and will intensify EC competition and jeopardize the EC's steel restructuring program. Last week, the EC Industry Council agreed to extend ceilings on steel output through 30 June 1983--a major element of the restructuring plan.

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Comment: Most production once directed to the US may now be marketed within the EC, putting additional downward pressure on prices and increasing calls for more government support. In addition, production quotas may have to be amended now that the US market--which took about 5 percent of EC output--will be restricted.

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The ruling also could lead to retaliatory trade measures, including restrictions on US textile or agricultural exports and measures to eliminate some tax advantages enjoyed by US firms operating in EC countries. No major action, however, is likely until after the meeting next week of EC foreign ministers.

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The EC probably will continue negotiations with the US for a voluntary export restraint agreement, hoping that as a tradeoff the countervailing duty suits will be dropped. If successful, such an arrangement would allow countries particularly hard hit by the rulings to maintain some access to the US market.

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FRANCE: Economic Measures

//The domestic economic measures announced earlier this week by the Mitterrand government reflect its increasing concern about the effects of France's high inflation rate, but they are not a fundamental shift in Socialist strategy.//

//The government hopes to reduce annual inflation from 14 percent to about 10 percent by the end of 1982 and to 8.5 percent in 1983. This is to be accomplished by a four-month freeze on incomes and prices, with exceptions only for minimum-wage earners and for food and energy prices.//

//The government has reaffirmed its pledge to limit the budget deficit to 3 percent of the gross national product in 1982 and 1983, and it has promised to bring the deficit-ridden social security and unemployment insurance funds into balance for both years. Prime Minister Mauroy is blaming the failure of his government's stimulus program on world economic conditions and the inflation inherited from the Giscard administration. He expressed determination to achieve decisive results on inflation in a minimum amount of time.//

Comment: //Mauroy implies that the government is looking forward to a "postadjustment" period when a return to the original Socialist program may be possible. The wage-price freeze, if moderately successful, will reduce imports and inflation. Assuming that the government lifts the controls as scheduled in November, however, it probably will encounter demands by French workers for catchup increases.//

//The proposed austerity is not likely to provoke the dissolution of the governing coalition. Communist Party leaders would recognize that leaving the government would destroy their attempt to forge an electoral alliance with the Socialists before the municipal voting next spring. Although Mauroy may come under attack from leftwing Socialists, few--if any--Socialist deputies would betray Mauroy on the vote of confidence that he intends to seek.//

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PAKISTAN: Provincial Violence Curbed

Local cease-fires in most of Kurram Agency bordering Afghanistan have ended the week-long tribal and sectarian fighting in which at least 58 were killed. Pakistani officials appear to have the situation under control and have created a council of elders from tribes outside the area to examine the issues. [REDACTED]

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Comment: The violence in Kurram is the most recent in a series of similar disturbances in the North-West Frontier Province since last November. Taken together, these outbreaks constitute the most serious period of tribal and sectarian unrest in the province since Pakistan became independent. The influx of refugees from Afghanistan and the availability of larger and more modern weapons have aggravated historic rivalries in the area and provide Moscow with new opportunities to put pressure on Islamabad. [REDACTED]

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PERU-FRANCE-USSR: Possible Aircraft Purchases

//Prime Minister Ulloa says that the Peruvian high command is "furious" at France's delay of a shipment of Exocet air-to-surface missiles. The officers were said to be insulted that the French do not trust Peruvian promises not to transfer the weapons to a third country. Although the Air Force had decided to buy the latest model of the Mirage, Ulloa said that it might now decide to purchase MIG-23s instead. The Peruvians have been complaining that Western fighters cost too much and are not available with financing and that Western suppliers are not reliable.//

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Comment: //If the Air Force is still interested in the Mirage and is only annoyed at the French, it may try to use the French "embargo" as an excuse to extract a more favorable deal. The French action, however, also could lead the Peruvians to turn again to the Soviets for major purchases. The Air Force already has Soviet SU-22 fighters.//

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SPECIAL ANALYSIS

ISRAEL-US: Begin's Visit

Prime Minister Begin came to the US hoping to demonstrate that close bilateral relations remain intact, an impression that would help him counter domestic unease over the costs of the invasion of Lebanon. On matters of substance, Begin will take a firm line because of the leverage he believes Israel's military success has given him and because he is convinced the US shares his basic objectives. []

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Israel is determined to maintain its military advantage against the Palestinians. Mopping up operations in areas under Israeli control probably will continue for several weeks. []

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To strengthen their position for subsequent negotiations, the Israelis are signaling their willingness, if necessary to remain in Lebanon for an extended period. They are bringing in Israeli military and civilian administrators with experience in the West Bank. []

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The Israelis are confident that their military victories have already seriously undercut the Palestinians and Syrians but are continuing to improve their military position near Beirut. They may yet move against Palestinian strongholds in southern Beirut. It is not clear, however, just how much flexibility there is in Tel Aviv's demand that all Palestinian and Syrian forces have to leave Lebanon before the Israelis will pull out. []

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Begin will continue to urge the US to capitalize on the "new opportunities" in Lebanon. He wants the US to supply a major portion of the troops for a peacekeeping force to control the 40-kilometer buffer zone north of Israel's border. []

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